

EXHIBIT 1

CORPORATE INTEGRITY AGREEMENT **Horizon/CMS Healthcare Corporation, Continental Medical** **Systems, Inc., and North Louisiana Rehabilitation Center, Inc.**

I. Preamble

This Corporate Integrity Agreement ("CIA") is made between the United States of America, acting through the Office of Inspector General of the United States Department of Health and Human Services ("HHS/OIG"); Horizon/CMS Healthcare Corporation ("Horizon/CMS"); Continental Medical Systems, Inc., a wholly-owned subsidiary of Horizon/CMS and the majority stockholder of North Louisiana Rehabilitation Center, Inc.; and North Louisiana Rehabilitation Center, Inc., a Louisiana corporation whose principal place of business is located at 1401 Ezell St., Ruston, LA 71273, d/b/a North Louisiana Rehabilitation Hospital ("NLRH"); (hereafter the "Parties"). As part of its settlement agreement with the United States (the "Settlement Agreement"), Horizon/CMS, and NLRH have entered into this CIA, and have thereby agreed to NLRH's continued implementation of a Corporate Integrity Program (the "Program") to prevent fraud, abuse, and false billing to Medicare, Medicaid, and all other Federal health care programs by NLRH or its employees, independent contractors and third parties who are directly involved in or responsible for the delivery of medical services and those who are involved in or responsible for the submission of claims for medical services to Medicare, Medicaid, or any other Federal health care program. The Program shall include the provisions listed below and shall be maintained so as to ensure, to the extent reasonably possible, that NLRH and each of its directors, officers, employees, and contractors maintain the business integrity required of a provider participating in Federal health care programs, and that the claims submitted to Medicare, Medicaid, and all other Federal health care programs are in compliance with all statutes, regulations, and program requirements applicable to such programs and with the terms of the CIA set forth below.

II. Certification and Report Requirements

The period of future compliance obligations assumed by Horizon/CMS and NLRH under this CIA shall be three (3) years from the date of its execution.

All reports and notifications required under this CIA shall be sent to:

Civil Recoveries Branch-Compliance Unit
Office of Counsel to the Inspector General
Office of Inspector General
U.S. Department of Health and Human Services,
Cohen Building Room 5527
330 Independence Avenue, S.W.
Washington, D.C. 20201
(202) 619-2078
Facsimile: (202) 205-0604

Horizon/CMS or NLRH, as the case may be, agrees to implement the following measures within ninety (90) days of the date of execution of this CIA, unless otherwise specified below:

A. Compliance Subcommittee

A subcommittee of Horizon/CMS's existing corporate compliance committee, or of any similar committee or entity of Horizon/CMS's parent corporation, shall be appointed to monitor the Program and the implementation of this CIA. The members of the subcommittee shall include without limitation members of Horizon/CMS's senior management, board of directors, and legal affairs and finance departments, or those of its corporate parent. The subcommittee shall report to Horizon/CMS's full corporate compliance committee and, in turn, to Horizon/CMS's chief executive officer and board of directors, or to those similar respective entities of Horizon/CMS's corporate parent. The subcommittee shall submit annual reports (or more frequent, if circumstances require) to the board of directors of Horizon/CMS or its corporate parent and to HHS/OIG.

B. Audit and Review

NLRH shall contract with an independent professional organization, such as an accounting, law, or consulting firm with expertise in billings to the Medicare, Medicaid, and other Federal health care programs to review on an annual basis the billing and cost report policies, procedures and practices of NLRH as described more specifically below. The review shall be aimed at ensuring that the federal health care programs are billed appropriately for services that are rendered as claimed.

The audit shall specifically include a review of Medicare and Medicaid inpatient admissions at NLRH for medical necessity, and a review of claims for reimbursement for professional medical services provided to Medicare and Medicaid beneficiaries by NLRH and their effect on NLRH's cost reports. The purpose of said review is to prevent erroneous claims for reimbursement for inpatient admissions and medical treatments that are not medically necessary or not provided as claimed, and to ensure compliance with the applicable Medicare and Medicaid billing guidelines.

If such audits indicate deficiencies in its Medicare or Medicaid billing process, NLRH shall report promptly to HHS/OIG (a) its findings concerning any material violations, (b) NLRH's actions to correct such material violation, and (c) any further steps NLRH plans to take to address such material violations in the future. A material violation is one which has a significant, adverse financial impact on the Medicare and/or Medicaid programs. If such audits disclose billings which violate Medicare or Medicaid rules and regulations, NLRH shall notify HHS/OIG and remedy the violation(s) within sixty (60) days of identification by NLRH or the third party reviewer. NLRH agrees to take any necessary actions identified during such audit and reviews, including the notification of the appropriate carrier or fiscal intermediary, to ensure the amount of overpayment is properly returned. A summary of all deficiencies and corrective actions shall be included in the annual report provided to HHS/OIG.

C. Corporate Integrity Policies and Procedures

Horizon/CMS shall implement written policies, applicable to NLRH, regarding its commitment to ensure compliance with all statutes, regulations, and program requirements related to reimbursement claims for services provided to Medicare and Medicaid beneficiaries, including, without limitation, those for inpatient admissions and for professional medical services, including a commitment to accurate billings and cost reports consistent with published Medicare and Medicaid regulations and procedures. These policies shall be adopted by the board of directors and distributed to all employees and independent contractors. Horizon/CMS shall post in a prominent place accessible to each employee, including those at NLRH, a notice detailing its commitment to comply with all applicable Medicare and Medicaid statutes, regulations, and program requirements in the conduct of its business. A copy of the policies and notice will be available upon request for review by HHS/OIG.

D. Information and Education

NLRH shall institute and maintain an information and education program, as described more specifically below, designed to ensure that each officer, director, employee, consultant, and independent contractor of NLRH with any responsibility for the documentation, coding, or billing of services to Medicare or Medicaid is aware of all applicable health care statutes, including Medicare and Medicaid statutes, regulations, program requirements, and standards of business conduct that such individual is expected to follow and the consequences both to the individual and facility that will ensue from any violation of such requirements.

Within 120 days after the execution of this CIA, each officer and director at NLRH shall receive at least one (1) hour of initial training regarding implementation of this CIA. A schedule and topic outline of this CIA implementation training provided subject to this subparagraph shall be included in the annual report submitted to HHS/OIG.

Within 120 days after execution of this CIA, and annually thereafter, NLRH shall require and provide (i) at least one (1) hour of training to each and every employee of NLRH with any responsibility for the documentation, coding, or billing of services to Medicare or Medicaid, and (ii) an additional two (2) hours of training for each and every employee directly involved in the assignment of diagnosis, procedure, and evaluation and management codes for billing Medicare or Medicaid for NLRH. For employees hired after the conclusion of the 120 day period following the execution of this agreement, NLRH shall include this training in the formal orientation of those employees. The training shall cover this CIA and the corporate integrity Policies and Procedures described in Section C., above. The training shall also emphasize the need for strict compliance with billing and coding statutes, regulations, and program requirements, reinforce NLRH's billing policies, encourage the use of the Confidential Disclosure Program, described in Section E., below, and advise trainees that any failure to comply may result in disciplinary action. NLRH shall make such training available to independent contractors and consultants with any responsibility for the documentation, coding, or billing of services to Medicare or Medicaid for NLRH, and use its best efforts to encourage their attendance and participation.

NLRH shall certify in its annual reports to HHS/OIG that the training required by this section has been provided. The format, dates, and materials provided shall be available upon request.

E. Confidential Disclosure Program

Horizon/CMS shall establish a confidential disclosure program enabling employees, including those at NLRH, to disclose any practices or billing procedures deemed by the employee to be inappropriate, to an identified individual not in that employee's direct chain of command. Horizon/CMS shall, as part of the program, require the internal review of any such disclosure and ensure that proper follow-up is conducted. NLRH shall include in its annual report to HHS/OIG a summary of communication concerning inappropriate billings at NLRH under the confidential disclosure program, and the results of any internal review and follow-up of such disclosures.

F. Dealing with Excluded or Convicted Persons or Entities

Horizon/CMS shall implement a written internal operating policy that Horizon/CMS shall not knowingly employ, with or without pay, an individual or entity who is listed by a federal agency as currently debarred, suspended or otherwise ineligible for federal programs. In order to carry out the policy, Horizon/CMS shall make reasonable inquiry into the status of any current or potential employee or consultant. Such reasonable inquiry shall include, at a minimum, review of the HHS/OIG Cumulative Sanctions Report (available over the Internet at <http://www.dhhs.gov/progorg/oig>) and the General Services Administration (GSA) List of Parties Excluded from Federal Procurement and Non-Procurement Programs (available over the Internet at <http://www.arnet.gov/eplis>).

Horizon/CMS's policy shall not require it to terminate the employment of individuals who become suspended or are proposed for debarment during their employment with Horizon/CMS. Horizon/CMS, however, will remove such employees from responsibility for, or involvement with, its Medicare or Medicaid billing and reimbursement functions until the resolution of such suspension or proposed debarment. In addition, if any employee of Horizon/CMS is charged with a criminal offense relating to its Medicare or Medicaid business, Horizon/CMS will remove that employee immediately from responsibility for or involvement with Horizon/CMS's Medicare or Medicaid billing and reimbursement functions. If the employee is convicted or debarred, Horizon/CMS's policy will require that the employee will be terminated from employment with Horizon/CMS for the term of debarment or exclusion. Horizon/CMS shall notify HHS/OIG of each such personnel action taken and the reasons therefore, within fifteen (15) days of the action.

Horizon/CMS shall not allow any person convicted in any local, state or federal court of any felony involving health care matters to hold the position of officer or director of Horizon/CMS, or any of its subsidiaries.

G. Annual Reports

NLRH shall submit reports to HHS/OIG annually on the first, second, and third anniversary dates of the Settlement Agreement, with respect to the status and findings of NLRH's compliance activities. Each annual report shall include: (1) a summary of all deficiencies identified during the audits and reviews and corrective actions taken as a result thereof as required by Section II.B.; (2) the written Policies and Procedures required by Section II.C.; and (3) NLRH's certification that all training required by Section II.D. has been provided. The first annual report shall also include the schedule and topic outline of the CIA implementation training required by Section II.D.

III. OIG Inspection, Audit and Review Rights

In addition to any other right that HHS/OIG may have by statute, regulation, contract or pursuant to this CIA, and subject to any applicable state law requirements regarding peer review proceedings, medical record confidentiality, and attorney-client privilege, HHS or its duly authorized representative(s) may examine NLRH's books, records, and other company documents and supporting materials for the purpose of verifying and evaluating: (a) NLRH's compliance with the terms of this CIA; (b) NLRH's business conduct in its dealing with the United States Government, or any agencies or agents thereof; and (c) NLRH's compliance with the requirements of Medicare, Medicaid, and other Federal health care programs. The documentation described above shall be made available by NLRH at all reasonable times for inspection, audit or reproduction. Furthermore, for purposes of this provision, HHS or its authorized representative(s) may interview any NLRH employee who consents to be interviewed at the employee's place of business during normal business hours or at such other place and time as may be mutually agreed upon between the employee and HHS. Employees may elect to be interviewed with or without a representative of NLRH present.

IV. Document and Record Retention

NLRH shall maintain for inspection by HHS or its duly authorized representatives documents and records relating to Medicare and Medicaid billings and reimbursements for a period of four (4) years following the execution of this CIA.

V. Breach and Default Provisions

NLRH's compliance with the terms and conditions to this CIA shall constitute an element of NLRH's present responsibility with regard to participation in Federal health care programs. NLRH's failure to meet any of its obligations pursuant to the terms and conditions of this CIA constitutes a separate cause for exclusion.

In the event that HHS/OIG believes NLRH has breached one or more of its obligations under this CIA, HHS/OIG shall notify NLRH of the alleged breach by certified mail, specifying the nature and extent of the alleged breach. NLRH will have thirty (30) days from receipt of the notice: (a) to cure said breach; or (b) otherwise satisfy HHS/OIG that it is (1) in full compliance with this CIA or (2) that the breach cannot be reasonably cured within thirty (30) days, but that NLRH has taken action to cure the breach and is pursuing such action with diligence.

If, at the end of the thirty day period described above, HHS/OIG determines that NLRH continues to be in breach of one or more of its obligations under this CIA, and that NLRH is not taking appropriate action to cure such breach, HHS/OIG may, in writing and by certified mail, declare NLRH to be in default and suspend or exclude NLRH from participation in Medicare, Medicaid, and all other Federal health care programs, as defined in section 1128B(f) of the Social Security Act (42 U.S.C. § 1320a-7b(f)), until such time as the breach is cured. In the event NLRH fully cures the material breach or otherwise satisfies HHS/OIG, it will be promptly reinstated, retroactive to the date of cure. The document by which HHS/OIG may declare NLRH to be in default and notify NLRH of HHS/OIG's intention to exclude shall be referred to hereafter as the "Notice of Intention to Exclude Letter."

Upon receipt by NLRH of HHS/OIG's Notice of Intention to Exclude Letter, and as an agreed upon contractual remedy for the resolution of disputes arising under the obligation of this CIA, NLRH shall be afforded review rights comparable to the ones that are provided in 42 U.S.C. § 1320a-7(f) and 42 U.S.C. § 1005 as if they applied to the exclusion sought pursuant to this CIA. Specifically, HHS/OIG's determination to seek exclusion shall be subject to review by an HHS administrative law judge ("ALJ") in a manner consistent with the provisions in 42 C.F.R. §§ 1005.2-1005.21. The ALJ's decision, in turn, may be appealed to HHS's Departmental Appeals Board ("DAB") in a manner consistent with the provisions in 42 C.F.R. § 1005.21. Further, a DAB decision to exclude or uphold exclusion shall be subject to judicial review consistent with the provisions in 42 U.S.C. § 1320a-7(f)(1).

Notwithstanding any provision of Title 42 of the United States Code or Chapter 42 of the Code of Federal Regulations, the only issues in a proceeding for exclusion based on a breach of this CIA shall be (1) whether NLRH was in material breach of one or more of

its obligations under this CIA, as specified in the Notice of Intent to Exclude Letter; (2) whether such breach was continuing on the date on which HHS/OIG notified NLRH of its proposal to exclude; and (3) whether NLRH failed to cure the material breach or otherwise satisfy HHS/OIG within thirty (30) days after receiving notice thereof from HHS/OIG. For purposes of exclusion based on a breach of this CIA, HHS/OIG may proceed with its exclusion of NLRH if and when the ALJ issues a decision in favor of HHS/OIG. NLRH's election of its contractual right to appeal to the DAB shall not abrogate HHS/OIG's authority to exclude NLRH upon the issuance of the ALJ's decision.

Nothing in this CIA shall prevent the United States from excluding Horizon/CMS or NLRH, consistent with its normal procedures and the legal rights of Horizon/CMS or NLRH, for actions taken by Horizon/CMS or NLRH that are not specifically covered by this CIA or the Settlement Agreement.

VI. Costs Related to Compliance Program

In addition to the obligations assumed by NLRH under this CIA, if HHS/OIG determines that it is necessary to conduct an independent audit or review to determine whether or the extent to which NLRH is complying with its obligation under this CIA, NLRH agrees to pay for the reasonable costs of any such audit or review.

VII. Cooperation

NLRH shall cooperate in good faith with any civil, criminal, or administrative investigations or proceedings related to its submission of claims for reimbursement to the Medicare, Medicaid, or any other Federal health care program. A material failure to cooperate shall be treated as a breach of the terms of this CIA.

VIII. Miscellaneous Provisions

A. This CIA represents the entire understanding between the Parties with respect to Horizon/CMS's and NLRH's compliance obligations. Any modification to this CIA must be in writing and must be signed and executed by all parties to this CIA.


B. This CIA is binding upon and shall inure to the benefit of the Parties and their successors, assigns, heirs, agents, trustees, and employees. This CIA shall become final, binding, and effective only upon signing by every party hereto.

C. This CIA may be executed in multiple counterparts, each of which shall constitute an original, and all of which shall constitute one and the same agreement.

D. Each person who signs this CIA in a representative capacity warrants that he or she is duly authorized to do so.

**FOR THE OFFICE OF INSPECTOR GENERAL, U.S. DEPARTMENT OF
HEALTH AND HUMAN SERVICES:**

6/17/98
Date


Lewis Morris
Assistant Inspector General for Legal Affairs
Office of Counsel to the Inspector General
Office of Inspector General
U.S. Department of Health and Human Services

**FOR HORIZON/CMS HEALTHCARE CORPORATION, CONTINENTAL
MEDICAL SYSTEMS, INC., AND NORTH LOUISIANA REHABILITATION
CENTER, INC.:**

6/17/98
Date

Horizon/CMS Healthcare Corporation

By: [Signature]

Title: Vice President

6/17/98
Date

Continental Medical Systems, Inc.

By: [Signature]

Title: Vice President

6/17/98
Date

North Louisiana Rehabilitation Center, Inc.

By: [Signature]

Title: Vice President

6/16/98
Date

[Signature]
H. Guy Collier, Esq.
McDermott, Will & Emery
600 13th Street, N.W.
Washington, D.C. 20005-3096
Counsel to Horizon/CMS Healthcare
Corporation, Continental Medical
Systems, Inc., North Louisiana
Rehabilitation Center, Inc.